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Director



BRAD HENRY  
Governor

STATE OF OKLAHOMA  
DEPARTMENT OF CENTRAL SERVICES

March 31, 2006

**TO GARY R. CLARK, EXECUTIVE DIRECTOR AND BOARD MEMBERS**

With this letter, we transmit the report of the State Board of Osteopathic Examiners's purchase card program review for state fiscal year 2005.

We performed our review in accordance with professional auditing standards to ensure that the State's resources, procurement processes, and procedures are used in an ethical, effective, and efficient manner.

Sincerely,

  
John S. Richard  
Director of Central Services

*"Committed to Quality"*

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# OKLAHOMA

Department of Central Services

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## STATE BOARD OF OSTEOPATHIC EXAMINERS

**Purchase Card Review**

**For the period July 1, 2004 through June 30, 2005**

This publication is printed and issued by the Department of Central Services, as required by 74 O.S. § 212. Pursuant to 74 O.S. 3105, 25 copies have been prepared and distributed at a cost of \$2.80. Copies have been deposited with the Publications Clearinghouse of the Oklahoma Department of Libraries.

## TABLE OF CONTENTS

PURPOSE, OBJECTIVE AND SCOPE _____	1
METHODOLOGY _____	1
EXECUTIVE SUMMARY _____	2
AUDIT RESULTS _____	3
OVERALL CONCLUSION _____	8

## PURPOSE, OBJECTIVE AND SCOPE

The Department of Central Services has completed a review of the State Board of Osteopathic Examiners, hereinafter referred to as the "Agency", purchase card program for the period July 1, 2004 through June 30, 2005. The purpose of this report is to communicate the results of the review.

The objective of this review was to:

- determine if the agency's purchase card program is in compliance with laws and regulations;
- determine if the agency's purchase card program is in compliance with approved internal purchasing procedures as they relate to the acquisition process of using purchase cards;
- determine if the agency has implemented internal controls and if the agency's controls are operating effectively in relation to the purchase card program;
- determine the relative cost benefits the purchase card program had on the agency;
- make recommendations for improvements.

This review was performed pursuant to 74 O.S. § 85.5.E. and the State of Oklahoma Purchase Card Procedures in accordance with generally accepted *Government Auditing Standards*.

## METHODOLOGY

- Interviews were conducted with the Agency's staff members.
- Internal controls over the p/card program were documented and evaluated.
- Transactions from the active cardholder were examined.
- Overall program efficiency and effectiveness was evaluated.
- Overall program compliance with the State of Oklahoma Purchase Card Procedures and rules promulgated thereto was evaluated.

## EXECUTIVE SUMMARY

### ORGANIZATION

Established by the Legislature in 1921, the Board's principle duty is licensing of applicants for the practice of osteopathic medicine and adoption of rules and regulations governing enforcement of laws relating to the profession.

### AGENCY

The Agency is made up of one classified, four unclassified, and one temporary employee as of September 1, 2004. At the time of the review, there was one purchase card cardholder in the agency.

#### Board Members:

David W. Simpson, D.O.- President  
Cheryl Vaught, J.D.- Vice-President/ Public Member  
Gordon P. Laird, D.O.- Secretary-Treasurer  
Paul F. Benien, Jr., D.O.- Member  
James P. Riemer, D.O.- Member  
B. Frank Shaw, D.O.- Member  
Thomas R. Pickard, D.O.- Member  
Catherine C. Taylor, J.D.- Public Member

#### Key Staff:

Gary R. Clark, Executive Director  
Barbara Shepherd, Purchase Card Administrator

## AUDIT RESULTS

### Findings and Recommendations

*Findings and recommendations are reported based on audit significance.*

#### **Finding No: 05-525-01**

**Criteria:** The Codification of Statements on Auditing Standards AU § 319.110 (9), Segregation of duties, states in part, "Assigning different people the responsibilities of authorizing transactions, recording transactions, and maintaining custody of assets is intended to reduce the opportunities to allow any person to be in a position to both perpetrate and conceal errors or fraud in the normal course of his or her duties."

The United States General Accounting Office, GAO/AIMD-00-21.3.1, Internal Control Standards, Segregation of Duties states:

Key duties and responsibilities need to be divided or segregated among different people to reduce the risk of error or fraud. This should include separating the responsibilities for authorizing transactions, processing and recording them, reviewing the transactions, and handling any related assets. No one individual should control all key aspects of a transaction or event.

**Condition:** We noted the following during our testwork:

The Agency has deficiencies in the segregation of duties as it relates to the purchase card program. Based on our review, one individual within the Agency has access to or performs the following duties:

- Assumes the duties of Cardholder/Approving Official/Purchase Card Administrator
- Administers the Purchase Card Program
- Has access to and maintains all purchase cards and account information
- Has authority to change cardholder spending limits
- Maintains all purchase card records and information
- Prepares the purchase card voucher
- And, establishes authority orders

**Cause:** The Agency is a small agency with only five full-time employees. As such, it is difficult to appropriately segregate duties.

**Effect:** One individual can control all key aspects of a transaction or event. With a lack of compensating controls, the existing controls create the opportunity for the abuse of the purchase card that could go undetected by agency management.

**Recommendation:** We recommend separating the duties of maintaining the purchase card program, processing the transaction, recording the transaction, and reviewing the transaction. Separation of these duties would improve and increase the effectiveness of management's control activities.

### Finding No: 05-525-02

**Criteria:** State Purchase Card Procedures § 6.11, Lost or stolen cards, states in part:

If a cardholder's p/card is lost or stolen, the cardholder shall immediately notify JPMorgan Chase... The cardholder shall record the date and time JPMorgan Chase was notified as well as the name of the JPMorgan Chase customer service representative contacted. Next, the cardholder shall complete a Stolen Card Notification form and provide it by the fastest possible means to the State Entity P/Card Administrator with a copy to the appropriate State Entity Approving Official....

**Condition:** During the audit period reviewed, the Agency's sole purchase card was believed to have been lost. The P-Card Administrator was unclear as to the exact date the card was believed to have been lost. The Agency does not have written documentation (the Stolen Card Notification form) of the date the bank was notified that the purchase card was believed to have been lost. JPMorgan Chase and the Office of State Finance were verbally contacted to report the lost purchase card. For the period reviewed, there was no purchase card transaction activity for this purchase card.

**Cause:** Verbal contact with JPMorgan Chase was believed to be sufficient communication to report incidence of lost purchase card.

**Effect:** There is no written supporting documentation for the reporting of lost purchase card. By not promptly reporting a lost card, the agency increases its risks of unauthorized transactions occurring and may not be protected by the purchase card fraud protection insurance.

**Recommendation:** We recommend the purchase card procedures for reporting a lost card be followed and that the Stolen Card Notification forms be completed for all incidences of lost or stolen purchase cards.

### Finding No: 05-525-03

**Criteria:** State Purchase Card Procedures § 1.6, Conditions of participation, states in part, "State entity p/card procedures shall be made a part of their internal purchasing procedures."

State Purchase Card Procedures § 4.2, Implementation submissions, Note 5 states, "Entity p/card procedures shall be made a part of entity purchasing procedures."

STATE OF OKLAHOMA  
STATE BOARD OF OSTEOPATHIC EXAMINERS  
PURCHASE CARD REVIEW  
MARCH 31, 2006

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OAC 580:15-6-3 (f), Purchasing procedure amendments, states, "If a state agency desires to amend the state agency's internal purchasing procedures, the state agency shall submit the new procedures in their entirety to the State Purchasing Director for review pursuant to the provisions of these rules."

**Condition:** The State Board of Osteopathic Examiners has not updated their internal purchasing policy and procedures to include the State Purchase Card Procedures.

**Cause:** The Agency was unaware that internal purchasing policy and procedures were to be updated to include purchase card program procedures.

**Effect:** The Agency's internal policy and procedures do not include the purchase card procedures.

**Recommendation:** We recommend the State Board of Osteopathic Examiners revise the agency's internal purchasing procedures to include the purchase card procedures.

**Finding No: 05-525-04**

**Criteria:** State Purchase Card Procedures § 3.10, Purchase Card Employee Agreement, states in part, "Entity P/Card Administrators and designated back-ups, Authorized Signers, Approving Officials, and Cardholders must sign the State of Oklahoma Purchase Card Employee Agreement form prior to assuming their duties and being issued p/cards."

**Condition:** We noted during our testwork the cardholder has not signed the Purchase Card Employee Agreement form.

**Cause:** State Board of Osteopathic Examiners thought the Purchase Card Employee Agreement form was not available at the time of sign-up for participation in purchase card program.

**Effect:** By not signing a Purchase Card Employee Agreement form prior to card issuance and assumption of duties and responsibilities, the cardholder is not cognizant of their role in the purchase card program. This lack of knowledge creates an opportunity for lapse in established management controls.

**Recommendation:** We recommend the Purchase Card Employee Agreement be completed by each cardholder within the agency.

**Finding No: 05-525-05**

**Criteria:** State Purchase Card Procedures § 6.4, Transaction logs, states in part, "Cardholders shall maintain a transaction log for all p/card purchases, returns, credits and disputed transactions. A separate log shall be maintained for each p/card for each cycle."

State Purchase Card Procedures § 6.9.1, Cardholder responsibility, states in part:

The cardholder shall also sign and date the memo statement verifying that the transaction log and memo statement have been reconciled. All cardholders (including Entity P/Card Administrators and Approving Officials for other cardholders) must have their reconciliation approved by an approving official at least one level above their position.

State Purchase Card Procedures § 5.4.3 (version 03.28.2001), Voucher documentation, states in part:

Claims filed representing payment to OSF for p/card transactions shall include a copy of the state entity memo statement only and an invoice number... These claims will be considered similar to those processed under the alternate claim procedure (62 O.S. § 41.21) and post-audit of p/card claims will be performed for all state entities participating in the p/card program.

**Condition:** During state fiscal year 2005, the agency's purchase card program transaction dollar amount totaled \$3,136.53 and all transaction activity occurred during July 2004. Of the total purchase card transaction dollar amount, a charge of \$3,128.03 did not apply to the purchase card transaction activity for the agency. This charge was a debit reversal of an erroneous credit charge performed by the vendor in the previous fiscal year.

In review of the purchase card documentation for the fiscal year, the following was also noted:

1. There is not a separation between the cardholder and approving official. The cardholder and approving official are the same individual.
2. The cardholder did not maintain a transaction log for purchase card purchases and for each billing cycle.
3. The cardholder did not sign the memo statement.
4. The required voucher documentation for the July 2004 purchase card transaction activity was not provided to the auditors.

**Cause:**

1. The agency was not aware that the approving official for the cardholder had to be one position level above the cardholder.

2. The agency was not aware a separate transaction log is to be maintained for purchase card transactions and each billing cycle.
3. The agency was not aware that the memo statement is to be signed by the cardholder and approving official.
4. The claim was misfiled.

***Effect:***

1. By not having a designated approving official one level above the cardholder's position, there does not exist a separation of duties and responsibilities for effective oversight. It cannot be determined if the designated approving official by signing the memo statement has reviewed the memo statement for accuracy, completeness, appropriateness as it relates to the agency function, and in accordance with merchant preference requirements.
2. By not maintaining a separate transaction log, documentation for transaction activity for each billing cycle may not exist.
3. By not having the cardholder and approving official sign the memo statement, there is no indication that the memo statement has been reconciled to the transaction log and supporting documentation. There is also no indication that the approving official is in concurrence with the reconciliation and purchases made by the cardholder.
4. By not having the voucher claim available for review, it cannot be determined if one payment was made to the bank for purchase card transactions or if the claim was submitted to Office of State Finance (OSF) in accordance with procedural requirements.

***Recommendation:*** We recommend the following to the Agency:

1. Designate an approving official one position level higher than the cardholder.
2. Maintain a transaction log solely for purchase card transaction activity and for each billing cycle.
3. Memo statement be signed by both the cardholder and approving official.
4. Maintain all purchase card activity documentation in accordance with procedural requirements.

### **Management's Overall Response**

A management response received from Gary Clark, Executive Director, dated March 21<sup>st</sup>, 2006, stated in part, "As to the other four findings, rather than incremental discussion, let me just say again, we will not use the P-card. We have not used it since July of 2004. We are a small staff, so the segregation of duties issue applies in most of the things we do. At the time we only had four FTE's so you might want to change the reference in Finding 01.

**STATE OF OKLAHOMA  
STATE BOARD OF OSTEOPATHIC EXAMINERS  
PURCHASE CARD REVIEW  
MARCH 31, 2006**

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The lost card was simply misfiled. It was never activated. And, it is true that we haven't updated our internal procedures to include procedures for the use of the P-card but, we aren't going to use it. Finding 04 faults us for not signing a Purchase Card Employee Agreement. It didn't exist at the beginning of the P-card process. However, if we were going to use the card now we would certainly sign it.

**OVERALL CONCLUSION**

In our opinion, the State Board of Osteopathic Examiners has significant deficiencies pertaining to compliance with the requirements of the State of Oklahoma Purchase Card Program and rules promulgated thereto. Deficiencies include, but are not limited to, internal control segregation of duties and purchase card record maintenance. The State Board of Osteopathic Examiners has elected to discontinue their participation in the purchase card program.